

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Branch County Road Commission	County Branch
Fiscal Year End December 31, 2006	Opinion Date April 6, 2007	Date Audit Report Submitted to State April 16, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

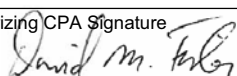
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**BRANCH COUNTY ROAD  
COMMISSION**  
(a Component Unit of Branch County)



**Coldwater, Michigan**

**FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

**BRANCH COUNTY ROAD COMMISSION**  
**(a Component Unit of Branch County)**

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

April 6, 2007

Members of the Board of County  
Road Commissioners  
County of Branch, Michigan  
Coldwater, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **BRANCH COUNTY ROAD COMMISSION**, a component unit of Branch County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Branch County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Branch County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Branch County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Branch County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2006.

### **Financial Highlights**

The Branch County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Branch County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$28,907,649 at the end of the fiscal year. There was an increase of \$805,595 in net assets during 2006.

The general operating fund had an increase in fund balance for the year of \$202,027. Total fund balance is \$1,249,052, of which \$670,264 is unreserved and undesignated.

The Road Commission in 2006 had one new debt issued in the form of a lease purchase agreement of \$217,597, and made total scheduled principal payments amounting to \$243,596.

### **Overview of the Financial Statements**

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

## Government-wide Statements

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Branch County.

The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Branch County which reports the Commission as a component unit.

**Fund financial statements.** A *fund* is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements are considered to be part of the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

<b>Condensed Statement of Net assets:</b>	<b><u>2005</u></b>	<b><u>2006</u></b>
Current and other asset	\$ 1,583,073	\$ 1,652,617
Capital assets	<u>27,664,480</u>	<u>28,239,050</u>
<b>Total assets</b>	<b><u>29,247,553</u></b>	<b><u>29,891,667</u></b>
Long-term liabilities outstanding	<u>604,143</u>	<u>578,144</u>
Other liabilities	<u>541,356</u>	<u>405,874</u>
<b>Total liabilities</b>	<b><u>1,145,499</u></b>	<b><u>984,018</u></b>
<b>Net assets:</b>		
Invested in capital assets	27,384,238	27,955,955
Unrestricted	<u>717,816</u>	<u>951,694</u>
<b>Total net assets</b>	<b><u>\$28,102,054</u></b>	<b><u>\$28,907,649</u></b>

<b>Condensed Statement of Activities:</b>	<b><u>2005</u></b>	<b><u>2006</u></b>
<b>Revenue</b>		
Permits	\$ 19,540	\$ 16,815
Federal Sources	176,133	397,677
State Sources	4,229,323	5,291,761
Local Sources	485,290	577,702
Charges for Services	1,780,680	1,074,615
Interest and Rentals	10,282	20,652
Other	188,846	112,447
<b>Total revenue</b>	<b><u>6,890,094</u></b>	<b><u>7,491,669</u></b>
<b>Expenses</b>		
Public Works	7,124,199	6,674,157
Debt Service - Interest only	12,814	11,917
<b>Total expenses</b>	<b><u>7,137,013</u></b>	<b><u>6,686,074</u></b>
<b>Increase (decrease) in net assets</b>	<b><u>(246,919)</u></b>	<b><u>805,595</u></b>
<b>Net assets, beginning of year</b>	<b><u>28,348,973</u></b>	<b><u>28,102,054</u></b>
<b>Net assets, end of year</b>	<b><u>\$28,102,054</u></b>	<b><u>\$28,907,649</u></b>

**Governmental activities.** Governmental activities increased the Commission's net assets by \$805,595 during fiscal year 2006.

- One element of this increase is because the Commission was able to adjust its expenses to match the decrease in revenue from the Michigan Transportation Fund.
- Capital outlay and costs for infrastructure improvements is an expense at the fund level, but is an addition to net assets in the government-wide financial statement model. These additions exceeded depreciation expense by approximately \$597,000 in 2006, compared to an excess of approximately \$26,000 in 2005.

### **Fund Level Financial Statements**

As of the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$1,249,052, an increase of \$202,027 during 2006. Approximately 54% of this total amount (\$670,264) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The unreserved fund balance of the general fund of approximately \$670,000 represents 8.9% of total general fund expenditures. Unreserved fund balance of the general fund had an increase of approximately \$94,000 due to bringing expenditures in line with revenues as noted above.

## **General Fund Budgetary Highlights**

The Road Commission amended its 2006 budget during the year to reflect an increase in revenues as result of receiving funds for Federal Safety Projects and State Critical Bridge Funds, decreased Michigan Transportation Funds, and higher expenses due to increased fuel and material costs.

## **Capital Assets and Debt Administration**

### **Capital assets**

Capital assets in total, net of accumulated depreciation, increased from \$27,664,480 to \$28,239,050 due primarily to infrastructure additions during the year of approximately \$2,649,000 and road equipment purchases of nearly \$535,000. Major equipment items included the purchase of three trucks totaling approximately \$345,000 and an end loader for approximately \$192,000. More detailed information of capital assets can be found in Note I-3 in the financial statements following.

### **Long-term debt**

In 2006, Long-term debt was increased by entering into an installment purchase agreement of \$217,597 for the acquisition of three trucks, and was decreased by \$214,744 for payments of scheduled principal on existing installment loans. Total long-term debt was \$578,144 at December 31, 2006. More detailed information of capital assets can be found in Note I-4 in the financial statements following.

## **Economic Factors and Road Fund Budgetary Highlights**

During fiscal year, 2007, we do not anticipate an increase in MTF funds due to the stagnant Michigan economy and the reduced weight and gas taxes received for distribution. The higher fuel and utility costs, as well as significant increases in raw materials and equipment, will continue to impact Commission resources.

Also, the reduction in revenue sharing to townships has resulted in less revenue available for construction projects to the Road Commission.

## **Requests for Information**

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Branch County Road Commission, 23 E. Garfield Avenue, Coldwater, MI 49036.

## **BASIC FINANCIAL STATEMENTS**

# BRANCH COUNTY ROAD COMMISSION

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash and interest bearing deposits	\$ 293,208	\$ -	\$ 293,208
Accounts receivable			
Motor vehicle highway funds	649,343	-	649,343
State Trunkline Maintenance	120,214	-	120,214
Other	11,064	-	11,064
Inventories			
Road materials	344,125	-	344,125
Equipment material and parts	231,159	-	231,159
Prepaid items	3,504	-	3,504
Capital assets			
Assets not being depreciated		3,330,765	3,330,765
Assets being depreciated, net	-	24,908,285	24,908,285
<b>Total assets</b>	<b><u>\$ 1,652,617</u></b>	<b><u>28,239,050</u></b>	<b><u>29,891,667</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 29,938	-	29,938
Accrued liabilities	65,404	2,309	67,713
Short term advances	308,223	-	308,223
Long-term liabilities			
Due within one year		215,722	215,722
Due after one year		362,422	362,422
<b>Total liabilities</b>	<b><u>403,565</u></b>	<b><u>580,453</u></b>	<b><u>984,018</u></b>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventories	575,284	(575,284)	-
Reserved for prepaids	3,504	(3,504)	-
Unreserved, undesignated	670,264	(670,264)	-
<b>Total fund balance</b>	<b><u>1,249,052</u></b>	<b><u>(1,249,052)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 1,652,617</u></b>		
<b>Net Assets</b>			
Invested in capital assets, net of related debt		27,955,955	27,955,955
Unrestricted		951,694	951,694
<b>Total net assets</b>		<b><u>\$ 28,907,649</u></b>	<b><u>\$ 28,907,649</u></b>

The accompanying notes are an integral part of these financial statements.

# BRANCH COUNTY ROAD COMMISSION

## Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2006

Fund balances - General Fund	\$ 1,249,052
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	28,239,050
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(283,095)
Certain liabilities, such as compensated absences and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(2,309)
Deduct - compensated absences payable	(295,049)
Net assets of governmental activities	<u><u>\$ 28,907,649</u></u>

The accompanying notes are an integral part of these financial statements.

# BRANCH COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Operating Fund	Adjustments	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>			
Current:			
Public works	\$ 7,277,579	\$ (603,422)	\$ 6,674,157
Debt service:			
Principal	214,744	(214,744)	-
Interest	14,916	(2,999)	11,917
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES/EXPENSES</b>	7,507,239	(821,165)	6,686,074
	<hr/>	<hr/>	<hr/>
<b>PROGRAM REVENUES</b>			
Charges for services	1,756,579	-	1,756,579
Operating grants and contributions	5,316,761	-	5,316,761
Capital grants and contributions	397,677	-	397,677
	<hr/>	<hr/>	<hr/>
<b>TOTAL PROGRAM REVENUES</b>	7,471,017	-	7,471,017
	<hr/>	<hr/>	<hr/>
<b>NET PROGRAM EXPENSES</b>			784,943
			<hr/>
<b>GENERAL REVENUES</b>			
Proceeds from installment lease	217,597	(217,597)	-
Interest earned	20,652	-	20,652
	<hr/>	<hr/>	<hr/>
<b>TOTAL GENERAL REVENUES</b>	238,249		
	<hr/>		
<b>NET CHANGE IN FUND BALANCE</b>	202,027	(202,027)	
<b>CHANGES IN NET ASSETS</b>			805,595
<b>FUND BALANCE/NET ASSETS,</b>			
<b>Beginning of year</b>	1,047,025	-	28,102,054
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE/NET ASSETS, End of year</b>	\$ 1,249,052	\$ (202,027)	\$ 28,907,649
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

## BRANCH COUNTY ROAD COMMISSION

### Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balance - General Fund	\$ 202,027
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	560,420
Add - Infrastructure additions	2,648,634
Deduct - depreciation expense	(2,612,413)
Deduct - loss on disposition of capital assets	(22,071)

Installment lease contract proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Deduct: Installment loan proceeds	(217,597)
Add: lease purchase installment payments	214,744

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Add: decrease in compensated absences	28,851
Add: decrease in accrued interest payable	3,000

Change in net assets of governmental activities	<u><u>\$ 805,595</u></u>
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The accompanying notes are an integral part of these financial statements.

# BRANCH COUNTY ROAD COMMISSION

## STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
REVENUE				
Permits	\$ 19,000	\$ 17,000	\$ 16,815	\$ (185)
Intergovernmental:				
Federal sources	788,000	1,075,000	397,677	(677,323)
State sources	4,455,000	4,558,000	5,291,761	733,761
Local sources	500,000	577,000	577,702	702
Charges for services	1,652,500	1,528,200	1,074,615	(453,585)
Interest and rentals	9,000	19,000	20,652	1,652
Transfer from primary government	25,000	25,000	25,000	-
Other	475,000	552,000	87,447	(464,553)
<b>TOTAL REVENUE</b>	<b>7,923,500</b>	<b>8,351,200</b>	<b>7,491,669</b>	<b>(859,531)</b>
EXPENDITURES				
Current:				
Primary heavy maintenance	2,750,000	2,113,000	2,113,365	365
Local heavy maintenance	800,000	761,000	743,977	(17,023)
Primary maintenance	1,900,000	2,077,000	1,907,393	(169,607)
Local maintenance	1,100,000	1,444,000	1,390,277	(53,723)
Trunkline maintenance	1,250,000	1,350,000	1,013,199	(336,801)
Trunkline nonmaintenance	1,000	-	-	-
Equipment - net	(275,000)	(128,000)	(181,680)	(53,680)
Administrative - net	450,000	459,000	376,075	(82,925)
Capital outlay - net	(130,000)	(73,000)	(76,860)	(3,860)
Debt service	148,000	229,000	229,660	660
Other	250,000	297,000	(8,167)	(305,167)
<b>TOTAL EXPENDITURES</b>	<b>8,244,000</b>	<b>8,529,000</b>	<b>7,507,239</b>	<b>(1,021,761)</b>
REVENUE OVER (UNDER) EXPENDITURES	(320,500)	(177,800)	(15,570)	162,230
OTHER FINANCING SOURCES				
Installment Purchase/lease proceeds	350,000	640,000	217,597	(422,403)
NET CHANGE IN FUND BALANCES	29,500	462,200	202,027	(260,173)
FUND BALANCE, Beginning of year	1,047,025	1,047,025	1,047,025	-
<b>FUND BALANCE, End of year</b>	<b>\$ 1,076,525</b>	<b>\$ 1,509,225</b>	<b>\$ 1,249,052</b>	<b>\$ (260,173)</b>

The accompanying notes are an integral part of these financial statements.

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Branch County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The Branch County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Branch, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Branch County Road Commission, a discretely presented component unit of Branch County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

#### **Basis of Presentation**

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. The general fund is considered to be a major fund for financial reporting purposes.

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

### **Budgetary Data**

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan.

# **BRANCH COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements. Excess expenditures over budget at this level are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the general fund.

Available revenues and underspending in other functional categories were used to offset overexpenditures in the general fund.

### **Inventory**

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

### **Fund Balance Reservations**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

### **Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items), are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<b><u>Asset Category</u></b>	<b><u>Useful Life in Years</u></b>
Buildings and improvements	40
Equipment	5 to 10
Infrastructure	8 to 50

### **Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Compensated Absences**

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 2. CASH DEPOSITS AND INVESTMENTS

#### Deposits

At December 31, 2006, the amount of the Road Commission's deposits were as follows:

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Petty cash	\$ 500	\$ -
Checking account – insured Held by Branch County *	-	8,023
Cash – bank money markets	292,708	292,014
	<b><u>\$ 293,208</u></b>	<b><u>\$ 300,037</u></b>

\* Deposits of the Road Commission held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

#### Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Investment and Deposit Risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2006.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2006.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2006, \$8,203 of the Road Commission's bank balance was entirely insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$292,014 held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2006.

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	BALANCE - JANUARY 1, 2006	ADDITIONS	DELETIONS	BALANCE - DECEMBER 31, 2006
<b>Capital assets not being depreciated:</b>				
Land and improvements	\$ 49,980	\$ -	\$ -	\$ 49,980
Land improvements - infrastructure	3,197,890	82,895		3,280,785
<b>Total capital assets not being depreciated</b>	<b>3,247,870</b>	<b>82,895</b>	<b>-</b>	<b>3,330,765</b>
<b>Capital assets being depreciated:</b>				
Depletable assets	626,798	-	-	626,798
Buildings	1,256,708	-	-	1,256,708
Equipment:				
Road	6,567,413	554,871	281,139	6,841,145
Shop	229,660	-	-	229,660
Office	96,717	4,445	-	101,162
Engineers	12,555	1,104	-	13,659
Yard and storage	819,800	-	-	819,800
Infrastructure	46,886,462	2,565,739	71,441	49,380,760
<b>Subtotal</b>	<b>56,496,113</b>	<b>3,126,159</b>	<b>352,580</b>	<b>59,269,692</b>
<b>Accumulated depreciation and depletion</b>				
Depletable assets	534,558	3,880	-	538,438
Buildings	882,382	37,939	-	920,321
Equipment:				
Road	5,273,877	509,011	259,068	5,523,820
Shop	205,908	7,948	-	213,856
Office	72,617	8,035	-	80,652
Engineers	5,871	1,449	-	7,320
Yard and storage	575,850	46,945	-	622,795
Infrastructure	24,528,440	1,997,206	71,441	26,454,205
<b>Total accumulated depreciation and depletion</b>	<b>32,079,503</b>	<b>2,612,413</b>	<b>330,509</b>	<b>34,361,407</b>
<b>Total capital assets being depreciated - net</b>	<b>24,416,610</b>	<b>513,746</b>	<b>22,071</b>	<b>24,908,285</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 27,664,480</b>	<b>\$ 596,641</b>	<b>\$ 22,071</b>	<b>\$ 28,239,050</b>

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<b>Balance January 1, 2006</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2006</b>	<b>Due Within One Year</b>
Installment lease					
purchase agreements	\$280,242	\$217,597	\$ 214,744	\$ 283,095	\$ 169,722
Compensated absences	323,901	-	28,852	295,049	46,000
<b>Totals</b>	<b>\$604,143</b>	<b>\$ 217,597</b>	<b>\$ 243,596</b>	<b>\$ 578,144</b>	<b>\$ 215,722</b>

#### Lease Purchase Agreements

The Road Commission entered into four purchase agreements for certain equipment secured by the related equipment. Payment terms are as follows:

	<b><u>Annual Payments</u></b>	<b><u>Interest Rates</u></b>	<b><u>Final Payment</u></b>
2003 - 4 trucks, 1 motor grader and asphalt plant refurbishment	\$102,714	3.5%	5/07
2007 - 3 Trucks	\$39,487 to \$78,976	3.8% to 5.25%	7/09

#### Accrued Sick and Vacation

After the first year of employment, employees can earn one week of vacation. Thereafter employees earn one additional day of vacation per year, until a limit of four weeks is reached. Vacation leave may be accumulated up to a maximum of 1 week over the annual allotment, as of the employee's anniversary date.

Sick leave is earned at the rate of 12 days per year, a maximum of 62.5 days may be accumulated.

Excess sick leave earned above 62.5 days is then converted into personal days. Personal days can be accumulated up to a maximum of 12 days and are paid off on the employee's anniversary date.

Vacation, sick, and personal pay is payable in full when employment ceases.

# BRANCH COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

The annual requirement to amortize the debt outstanding as of December 31, 2006, excluding sick and vacation leave payable, is as follows:

<b><u>Year Ended December 31,</u></b>	<b><u>Lease Purchases</u></b>		
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2007	\$ 169,722	\$ 11,968	\$ 181,690
2008	74,522	4,456	78,978
2009	<u>38,851</u>	<u>636</u>	<u>39,487</u>
<b>Totals</b>	<b><u>\$ 283,095</u></b>	<b><u>\$ 17,060</u></b>	<b><u>\$ 300,155</u></b>

### 5. DEFINED BENEFIT PENSION PLAN

The Road Commission contributes to the Branch County Pension Plan, which is a single-employer public employee's retirement system that covers all employees of the County, including Road Commission employees. The Plan is funded through the purchase of an Immediate Participation Guarantee (IPG) Group Annuity Contract with the John Hancock Mutual Life Insurance Company. Branch County's policy is to fund pension costs based on an actuarially determined rate of payroll. The portion of the Plan's actuarial accrued liability attributable solely to the Road Commission is not determinable. The Road Commission contributed \$196,612 to the Plan through the County for the year ended December 31, 2006.

A complete disclosure on the Branch County Pension Plan is presented within the County of Branch Comprehensive Annual Financial Report.

### 6. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for property, fleet, umbrella, errors and omissions, and dishonesty bond. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

### 7. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

# **BRANCH COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **8. SINGLE AUDIT**

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$397,677 of federal dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

### **9. ECONOMIC DEPENDENCY**

The Branch County Road Commission receives a substantial amount of its revenues from federal and state grants. A significant reduction in the level of this support, if this were to occur, could have an effect on the Branch County Road Commission's ability to continue its activities.

### **10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Road Commission provides postemployment health care benefits, in accordance with labor contracts and personnel policy. The Road Commission pays for health insurance from age 62 to 65. Currently, 9 retirees meet those eligibility requirements. Additionally, the Road Commission pays \$75 per month for association employees toward retirees' health insurance premiums after age 65. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due on a pay as you go basis. During the year, expenditures of \$64,424 for 6 individuals were recognized for postemployment health care.

\* \* \* \* \*

## **OPERATING FUND SCHEDULES**

# BRANCH COUNTY ROAD COMMISSION

## DETAIL SCHEDULE OF REVENUE BUDGET AND ACTUAL GENERAL OPERATING FUND

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Permits	\$ 17,000	\$ 16,815	\$ (185)
Federal sources:			
Surface Transportation Program	1,075,000	397,677	(677,323)
Total Federal Sources	<u>1,075,000</u>	<u>397,677</u>	<u>(677,323)</u>
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	8,000	8,003	3
Primary roads allocation	2,500,000	2,522,334	22,334
Local roads allocation	1,350,000	1,369,549	19,549
Primary urban roads	275,000	274,870	(130)
Local urban roads	25,000	25,262	262
Other	400,000	1,091,743	691,743
Total State Sources	<u>4,558,000</u>	<u>5,291,761</u>	<u>733,761</u>
Local sources:			
Township contributions	577,000	577,702	702
Total Local Sources	<u>577,000</u>	<u>577,702</u>	<u>702</u>
Charges for services:			
Maintenance contract	1,470,000	1,013,199	(456,801)
Salvage sales	5,200	5,226	26
Other	53,000	56,190	3,190
Total Charges for Services	<u>1,528,200</u>	<u>1,074,615</u>	<u>(453,585)</u>
Interest and rentals	19,000	20,652	1,652
County appropriation	25,000	25,000	-
Other:			
Other	465,000	1,102	(463,898)
Gain on equipment disposal	87,000	86,345	(655)
Total Other	<u>552,000</u>	<u>87,447</u>	<u>(464,553)</u>
<b>TOTAL REVENUE</b>	<u><u>\$ 8,351,200</u></u>	<u><u>\$ 7,491,669</u></u>	<u><u>\$ (859,531)</u></u>

# BRANCH COUNTY ROAD COMMISSION

## DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL GENERAL OPERATING FUND

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
Heavy maintenance:			
Primary roads and structures	\$ 2,113,000	\$ 2,113,365	\$ 365
Local roads and structures	761,000	743,977	(17,023)
Total Heavy Maintenance	<u>2,874,000</u>	<u>2,857,342</u>	<u>(16,658)</u>
Maintenance:			
Primary roads and structures, winter and traffic control	2,077,000	1,907,393	(169,607)
Local roads and structures, winter and traffic control	1,444,000	1,390,277	(53,723)
Total Maintenance	<u>3,521,000</u>	<u>3,297,670</u>	<u>(223,330)</u>
Trunkline:			
Maintenance	1,350,000	1,013,199	(336,801)
Nonmaintenance	-	-	-
Total Trunkline	<u>1,350,000</u>	<u>1,013,199</u>	<u>(336,801)</u>
Equipment:			
Direct	1,000,000	960,891	(39,109)
Indirect	310,000	309,541	(459)
Operating	292,000	299,670	7,670
Less: Equipment rental	(1,730,000)	(1,751,782)	(21,782)
Total Equipment, net	<u>(128,000)</u>	<u>(181,680)</u>	<u>(53,680)</u>
Administrative:			
Administration	459,000	376,075	(82,925)
Total Administrative	<u>459,000</u>	<u>376,075</u>	<u>(82,925)</u>
Capital outlay:			
Land improvements, building and equipment	560,000	560,420	420
Less - Equipment retirements	(611,000)	(22,072)	
Less - Depreciation	(22,000)	(615,208)	(593,208)
Total Capital Outlay, net	<u>(73,000)</u>	<u>(76,860)</u>	<u>(592,788)</u>
Debt service:			
Principal retirement	214,000	214,744	744
Interest and fiscal charges	15,000	14,916	84
Total Debt Service	<u>229,000</u>	<u>229,660</u>	<u>660</u>
Other:			
Other	297,000	(8,167)	(305,167)
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 8,529,000</u></b>	<b><u>\$ 7,507,239</u></b>	<b><u>\$ (1,021,761)</u></b>

# BRANCH COUNTY ROAD COMMISSION

## SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>DESIGNATED</b>		<b>UNDESIGNATED</b>	
	<b>PRIMARY</b>	<b>LOCAL</b>	<b>COUNTY</b>	
	<b>ROAD FUND</b>	<b>ROAD FUND</b>	<b>ROAD FUND</b>	<b>TOTAL</b>
REVENUE				
Permits			\$ 16,815	\$ 16,815
Intergovernmental:				
Federal sources	397,677	-	-	397,677
State sources	3,894,295	1,397,466	-	5,291,761
Local sources		577,702		577,702
Charges for services			1,074,615	1,074,615
Interest and rentals			20,652	20,652
County appropriation			25,000	25,000
Other			87,447	87,447
<b>TOTAL REVENUE</b>	<b>4,291,972</b>	<b>1,975,168</b>	<b>1,224,529</b>	<b>7,491,669</b>
EXPENDITURES				
Preservation - Structural improvements	2,113,365	743,977		2,857,342
Maintenance	1,907,393	1,390,277		3,297,670
Trunkline			1,013,199	1,013,199
Equipment - net	(79,303)	(64,515)	(37,862)	(181,680)
Administrative - net	245,670	130,405		376,075
Capital outlay - net	-	-	(76,860)	(76,860)
Debt principal	-	-	214,744	214,744
Interest and fiscal charges			14,916	14,916
Other			(8,167)	(8,167)
<b>TOTAL EXPENDITURES</b>	<b>4,187,125</b>	<b>2,200,144</b>	<b>1,119,970</b>	<b>7,507,239</b>
REVENUE OVER (UNDER) EXPENDITURES	104,847	(224,976)	104,559	(15,570)
OTHER FINANCING SOURCES (USES)				
Interfund adjustments		224,976	(224,976)	-
Installment loan proceeds	217,597	-	-	217,597
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>217,597</b>	<b>224,976</b>	<b>(224,976)</b>	<b>217,597</b>
NET CHANGE IN FUND BALANCES	322,444	-	(120,417)	202,027
FUND BALANCE, Beginning of year	-	-	1,047,025	1,047,025
<b>FUND BALANCE, End of year</b>	<b>\$ 322,444</b>	<b>\$ -</b>	<b>\$ 926,608</b>	<b>\$ 1,249,052</b>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



April 6, 2007

The Board of County Road Commissioners  
of Branch County, Michigan  
Centreville, Michigan

We have audited the basic financial statements of **BRANCH COUNTY ROAD COMMISSION, a component unit of Branch County**, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 6, 2007.

Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 11, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Branch County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Branch County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2006. We noted no transactions entered into by Branch County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

We noted no transactions entered into by Branch County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Branch County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on Branch County Road Commission.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Branch County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Road Commissioners and management of Branch County Road Commission, a component unit of Branch County and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

# **BRANCH COUNTY ROAD COMMISSION**

## **COMMENTS AND RECOMMENDATIONS**

**For the Year Ended December 31, 2006**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated April 6, 2007 on the financial statements of Branch County Road Commission.

### **Internal control matters**

*Payroll Processing* – The Road Commission’s procedures do not currently include an independent review and approval of the payroll register prior to the distribution of pay checks. In order to enhance the internal controls in this area, we recommend that an independent review of the payroll register be performed prior to check distribution.

*Fidelity Bond Insurance Coverage* – Currently there is fidelity bond coverage of \$10,000. This amount has remained the same level for several years. As the financial activity of the Commission has increased significantly from several years ago, we recommend that the Commission in consultation with the insurance carrier consider increasing this level of coverage.

### **OPEB Liability**

The Branch County Road Commission, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or “OPEB”) are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Commission, have been on a “pay as you go” or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Commission through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, as a component unit of Branch County, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

The amount of the annual “ARC” expense must be recorded on each entity’s financial statements. To the extent that this annual “ARC” amount is not currently funded, the under-funding must be reported on the entity’s balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Commission should make sure all preparations and forecasts are addressed as the implementation date draws nearer.

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